

Spire Healthcare Properties Limited

Annual report and financial statements

For the year ended 31 December 2019



Spire Healthcare Properties Limited

Registration No. 01829406

Company Information

Directors	J J Ash P J Corfield J H Sodha
Company secretary	P W Davis (appointed on 31 March 2020)
Registered office	3 Dorset Rise London EC4Y 8EN
Auditors	Ernst & Young LLP Apex Plaza Forbury Road Reading RG1 1YE

Spire Healthcare Properties Limited

Registration No. 01829406

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Spire Healthcare Properties Limited

Registration No. 01829406

Strategic Report For the year ended 31 December 2019

The Directors of Spire Healthcare Properties Limited (the "Company") present their Strategic Report for the year ended 31 December 2019.

Principal activities and review of the business

The principal activity of Spire Healthcare Properties Limited (the "Company") is the leasing of hospital property to Spire Healthcare Limited under a long lease, further details of which are contained in note 17.

Results

The profit for the year, after taxation, amounted to £988k (2018: restated profit of £969k).

Key performance indicators

In view of the straight forward nature of the business, the Directors do not consider the use of key performance indicators necessary to provide an understanding of the development, performance or position of the business.

Principal risks and uncertainties

COVID-19 – a new Principal Risk

The directors of Spire Healthcare Group plc consider that the COVID-19 virus represents an on-going material risk to the Group. A second wave of infections in the autumn or winter of 2020-2021 could affect the Group's ability to continue its private healthcare activities if elective procedures are largely unable to continue as occurred from March to May 2020, or if patient confidence falls. This could have a material impact on the Group's profitability and cash generation. Foreseeable scenarios from a second wave of COVID-19 infections have been modelled as part of the going concern and viability testing by management.

Credit risk

Credit risk arises principally from the Company's receivables of rent from Spire Healthcare Limited, a fellow group undertaking of Spire Healthcare Group plc, which, as the principal operating company of the Group, has leased the hospital property for a maximum term of up to 15 years to December 2031.

Overall risk management

Overall risk is managed with reference to Spire Healthcare Group plc and its subsidiaries (the "Group") and the principal risks and uncertainties facing the Company are therefore integrated with those facing the Group as a whole. Further information is provided in the 2019 Annual Report and Accounts of Spire Healthcare Group plc, which is available at www.spirehealthcare.com.

Approved by the Board on 8 October 2020 and signed on its behalf by:



.....
J H Sodha
Director

Spire Healthcare Properties Limited

Registration No. 01829406

Directors' Report For the year ended 31 December 2019

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2019.

Directors

The Directors who held office during the year and up to the date of this report were as follows:

J J Ash	
P J Corfield	
J H Sodha	(appointed 14 January 2019)
D F Toner	(resigned 31 March 2020)

Results

The profit for the year, after taxation, amounted to £988,000 (2018: £969,000).

Dividends

No ordinary dividend has been proposed for the year ended 31 December 2019 (2018: £nil).

Future developments

The Directors do not foresee any changes in the Company's activities in the foreseeable future.

Going concern

The Company operates as part of the Spire Healthcare group ("the Group"). The day to day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Group. The Directors of the Company have received written confirmations from both the ultimate parent company, Spire Healthcare Group plc, and from the main trading entity in the Group, Spire Healthcare Limited, that, to the extent necessary to meet the Company's liabilities, they will provide financial support to the Company for at least 12 months from the approval of these financial statements.

The Group is financed by a bank loan facility which was due to mature in July 2022, but has been extended by one year. As at 30 June 2020, the Group had cash of £90.9m and access to a further £100.0m through a committed and undrawn credit facility.

Given the economic uncertainty arising from the COVID-19 pandemic, the directors of Spire Healthcare Group plc have taken a number of actions since the year-end, including cancelling the final dividend for the year ended 31 December 2019 and deferring certain capital investment which was planned during 2020, in order to strengthen its liquidity position. In addition, as announced in April, the lenders of the Senior Loan facility have agreed to waive the covenant testing required under the agreement for the next two scheduled test periods on 30 June and 31 December 2020.

In March 2020, the Group agreed to support the NHS during the COVID-19 pandemic, which resulted in certain cash costs being covered, and also confirmed Heads of Terms for a further variation to the NHS England (NHSE) contract in August 2020 allowing the Group to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists whilst increasing private activity at 35 hospitals in England. The varied contract is expected to remain in place until at least 31 October 2020, with a definitive expiry date at the end of December 2020 at latest.

The agreements with NHSE provide the Group with liquidity and a greater degree of certainty as the Group is paid weekly in advance, with the ability to return to normal trading over time.

Spire Healthcare Properties Limited

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Directors' Report

For the year ended 31 December 2019 (continued)

Going concern (continued)

The Group has reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS for a longer period than was initially envisaged. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committee facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x, if this measure has not already reduced below 4x. The Group currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has also been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023.

Notwithstanding the above actions, given the economic uncertainty of the COVID-19 pandemic; the Group has considered its forecasts and projections, including modelling for various scenarios, covering both the risk of a national or extensive regional lockdown in late 2020 and early 2021.

As a result of the above, the directors of Spire Healthcare Group plc are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available, even in its severe but plausible downside scenarios, such that it will have the ability to support the Company if required. Therefore, the Directors of the Company have concluded it is appropriate to prepare the accounts on a going concern basis.

Post balance sheet events

Details of post balance sheet events impacting the company are included in note 21.

Directors' indemnity

As at the date of this report and during the year, the Company had in force an indemnity provision in favour of one or more Directors of the Company, against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

Disclosure of information to auditor

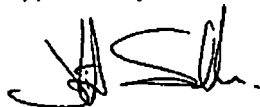
Having made enquiries of fellow Directors and the Company's auditor, each of the Directors confirms that:

- to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Reappointment of auditors

The auditor, Ernst & Young LLP, was the Company's auditor during the year and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 8 October 2020 and signed on its behalf by:



J H Sodha
Director

Spire Healthcare Properties Limited

Registration No. 01829406

Statement of Directors' Responsibilities For the year ended 31 December 2019

The Directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Spire Healthcare Properties Limited

Opinion

We have audited the financial statements of Spire Healthcare Properties Limited for the year ended 31 December 2019 which comprise of the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – effects of COVID-19

We draw attention to notes 2 and 21 of the financial statements, which describes the economic and social actions that the Company are undertaking as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of Spire Healthcare Properties Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 6 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of Spire Healthcare Properties Limited (continued)

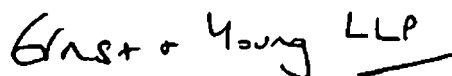
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

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Debbie O'Hanlon (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

Reading
8 October 2020

Spire Healthcare Properties Limited

Registration No. 01829406

Income Statement

For the year ended 31 December 2019

	Note(s)	2019 £'000	2018 (Restated) £'000
Rental income		2,694	2,680
Administrative expenses	4	(574)	(602)
Operating profit		2,120	2,078
Interest payable and similar charges	7	(791)	(803)
Net finance cost		(791)	(803)
Profit on ordinary activities before taxation		1,329	1,275
Tax on profit on ordinary activities	8	(341)	(306)
Profit for the financial year		988	969

The results for 2018 in all primary statements has been restated for the adoption of IFRS 16 – Leases. See note 19, IFRS 16 transition note for more details.

All the results in the current and prior periods were derived from continuing operations.

No other gains and losses other than those above have occurred, therefore no separate statement of comprehensive income has been prepared.

Spire Healthcare Properties Limited

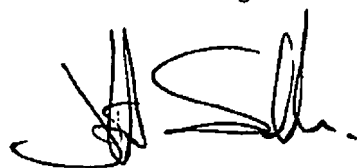
Registration No. 01829406

Statement of Financial Position As at 31 December 2019

	Note	2019 £'000	2018 (restated) £'000	2017 (restated) £'000
Non-current assets				
Property, plant and equipment	9	561	634	707
Investment properties	10	36,985	37,489	37,993
Deferred tax asset	11	25	29	29
Lease receivable	12	1,717	1,828	1,906
		39,288	39,980	40,635
Current assets				
Trade and other receivables	13	645	671	687
		645	671	687
Payables: amounts falling due within one year	14	(27,869)	(29,502)	(31,102)
Net current liabilities		(27,224)	(28,831)	(30,415)
Total assets less current liabilities		12,064	11,149	10,220
Lease liability	14	(1,638)	(1,761)	(1,850)
Provisions for liabilities	15	(518)	(468)	(406)
Net assets		9,908	8,920	7,964
Capital and reserves				
Share capital	16	-	-	-
Retained earnings		9,908	8,920	7,964
Total Equity		9,908	8,920	7,964

The notes on pages 13 to 28 are an integral part of these financial statements.

The financial statements on pages 10 to 28 were authorised for issue by the Board of Directors on 8 October 2020 and signed on its behalf by:



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J H Sodha
Director

Spire Healthcare Properties Limited

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Statement of Changes in Equity For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2018 – as reported	-	7,776	7,776
Adoption of IFRS 16 - Leases	-	188	188
At 1 January 2018 – as restated		7,964	7,964
Profit for the financial year	-	969	969
Total comprehensive income	-	969	969
IFRS 16 adjustment	-	(13)	(13)
At 31 December 2018	-	8,920	8,920
At 1 January 2019	-	8,920	8,920
Profit for the financial year	-	988	988
Total comprehensive income	-	988	988
At 31 December 2019	-	9,908	9,908

Spire Healthcare Properties Limited

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Notes to the financial statements For the year ended 31 December 2019

1 General information

Spire Healthcare Properties Limited (the "Company") is a limited company incorporated and domiciled in England and Wales. The address of its registered office and principal place of business is disclosed in the Company Information.

The Company's functional and presentational currency is the British Pound, denominated by the symbol "£", and unless otherwise stated, the financial statements have been presented in thousands ('000).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have, unless otherwise stated, been consistently applied to all periods presented.

2 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 ("FRS 101") 'Reduced Disclosure Framework' and the Companies Act 2006.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements of IFRS 16 Leases;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations; and
- the requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The financial statements of the Company are consolidated in the financial statements of Spire Healthcare Group plc. The consolidated financial statements are available from www.spirehealthcare.com. The Company itself is a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its Group.

Spire Healthcare Properties Limited

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Notes to the financial statements For the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Changes in accounting standards

Standards and interpretations which have become effective during the financial year:

Standard or interpretation	Effective
Annual Improvements 2015–2017 Cycle	1 January 2019
IFRIC 23 – Uncertain tax positions	1 January 2019
IFRS 16 Leases	1 January 2019

There has been no material impact on the Company's financial statements on the adoption of these standards except for IFRS 16 Leases. The Company's financial statements on the adoption of these standards, with the exception of IFRS 16. The nature and effect of the changes as a result of adoption of IFRS 16 new accounting standard is described below.

IFRS 16 Leases

IFRS 16 replaces IAS 17 and introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The operating lease cost which the Company previously incurred has been replaced by a depreciation charge on the right-of-use asset (over the term of the lease) as well as an interest charge on the lease liability over the same period.

IFRS 16 has a significant impact for the Company's financial statements owing to its lease of the hospital property which was previously accounted for as an operating lease. The impact arising from non-property operating leases is negligible and the Company has elected the recognition exemption for short-term leases (less than 12 months) and low value assets.

The Company has adopted IFRS 16 on a fully retrospective basis on 1 January 2019 utilising the practical expedient to not reassess whether a contract contains a lease. The prior period financial information has been restated to reflect the impact of the new accounting standard (see note 24).

The application of IFRS 16 requires the Company to make judgements that affect the valuation of the lease liabilities and right of use (ROU) assets. These are set out in note 3.

Going concern

As highlighted in the Strategic Report and Directors' Report, the day to day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Group, such support having been confirmed in writing by Spire Healthcare Group plc and Spire Healthcare Limited as available for at least 12 months from the approval of these financial statements.

The Group is financed by a bank loan facility which was due to mature in July 2022, but has been extended by one year. As at 30 June 2020, the Group had cash of £90.9m and access to a further £100.0m through a committed and undrawn credit facility.

The Group has reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS for a longer period than was initially envisaged. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committee facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x if this measure has not already reduced below 4x. The Group currently has a Senior Loan

Spire Healthcare Properties Limited

Registration No. 01829406

Notes to the financial statements

For the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Going concern (continued)

Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has also been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023.

Notwithstanding the above actions, given the economic uncertainty of the COVID-19 pandemic, the Group has considered its forecasts and projections, including modelling for various scenarios, covering both the risk of a national or extensive regional lockdown in late 2020 and early 2021.

As a result of the above, the Directors are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available, even in its severe but plausible downside scenarios, such that it will have the ability to support the Company if required. Therefore, the Directors have concluded it is appropriate to prepare the accounts on a going concern basis.

Rental income

Rent arising on leased properties is accounted for on a straight line basis over the lease term.

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax assets and liabilities are measured at the amount expected to be received from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Where there is an uncertain tax position, a provision shall be booked based on either the most likely amount, where the range of results in binary, or as a weighted average of possible outcomes where a range of outcomes is possible.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements where the initial recognition exemption does not apply.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured in an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred taxes relates to the same taxation authority and that authority permits the Company to make a single net payment.

Spire Healthcare Properties Limited

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Notes to the financial statements For the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and buildings under construction over their estimated useful lives, as follows:

Leasehold improvements	5 years or life of lease
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Investment Properties

Investment Properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties continue to be accounted for at cost less accumulated depreciation, depreciated over their useful economic lives, as follows:

Buildings	10-50 years
Fixtures and fittings	10 years

No depreciation is provided on land.

Impairment of non-financial assets

Investment property is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Trade and other receivables

Trade and other receivables are measured at fair value plus any directly attributable transaction costs. Subsequently, such assets are measured at amortised cost, using the effective interest rate method less any impairment.

Where applicable, the Company applies the simplified approach to measuring expected credit losses.

Cash and cash equivalents

Cash comprise cash balances and call deposits.

Spire Healthcare Properties Limited

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Payables

Short term payables are measured at fair value, net of directly attributable transaction costs.

Leases

At inception, the Company assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether the Company obtains substantially all the economic benefits from the use of that asset, and whether the Company has the right to direct the use of the asset when considering whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

After initial recognition, the lease liability is measured at amortised cost using the effective interest method. A reassessment of the lease liability occurs when there is a change in lease payments. The incremental borrowing rate is only revised where the change in payments is a result of a change in floating interest rates, lease term change or a change in assessment relating to the exercise of purchase option charges.

The Company recognises a right of use (ROU) asset and a lease liability at the commencement of the lease. The ROU is initially measured based on the present value of lease payments, less any incentives received. Initial direct costs and costs to dismantle or restore an asset are included. The ROU is depreciated over the shorter of the lease term or the useful economic life of the underlying asset. The incremental borrowing rate is used to discount the assets over the relevant term. The ROU is subject to testing for impairment if there is an indicator for impairment.

Lease payments generally include fixed payments and variable payments that depend on an index (such as inflation index). When the lease contains an extension or purchase option that the Company considered reasonably certain to be exercised, the cost of the option is included in the lease payments. The incremental borrowing rate is used to discount the lease payments over the term of the lease.

ROU assets are categorised to reflect the nature of the underlying asset and consistent with the Plant, Property & Equipment note. The assets are depreciated over the term of the lease, accounting for break clauses or options to extend in line with the lease liability decision.

ROU assets are disclosed as Plant, Property & Equipment on the balance sheet (non-current) with a separate disclosure within the associated note, and the lease liability is included in the headings Lease Liability (current and non-current) on the Consolidated balance Sheet.

The Company has elected not to recognise ROU assets and liabilities for leases where the total lease term is less than 12 months, or for leases of low value equipment. The payments for such leases are recognised in the Consolidated income statement on a straight line basis over the lease term.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium.

Spire Healthcare Properties Limited

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Notes to the financial statements For the year ended 31 December 2019 (continued)

3 Significant judgements and estimates

In the application of the Company's accounting policies, which are described in Note 2, the Directors are required to make estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical accounting estimates and areas of judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions, will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

Leases

The application of IFRS 16 requires the Group to make certain judgements which affect the value of the ROU asset and lease liability, and these include: determining contracts in the scope of IFRS 16 and the contract term.

The lease term is determined by the Group comprising non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and period covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. The Group reviews the business plan, investment in leasehold improvements and market conditions when considering the certainty of options to extend or terminate. For lease contracts with an indefinite term, the Group determines the length of the contract to be equal to the average or typical market contract term of the particular type of lease. The same life is then applied to determine the depreciation rate of ROU assets.

Investment property disclosed values

In valuing investment properties judgements are required about the assumptions, in particular regarding the market rent and market yield. Further details are provided in note 10 below.

Estimates

Leases

The present value of the lease payment is determined using the discount factor (incremental borrowing rate) which is determined by a reference rate (being UK Government bonds or Sterling LIBOR) adjusted by an applicable credit spread or margin to reflect the credit standing of the Group observed in the period when the lease contract commences or is modified. The incremental borrowing rate applied reflects a rate for a similar term and security to that of the lease and is determined at inception. Details of incremental borrowing rates can be found on note 17.

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is arrived after charging:	2019	2018
	£'000	£'000
Depreciation	577	577

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For the year ended 31 December 2019 (continued)

5 Staff costs and Directors' remuneration

The Company had no employees during the year (2018: Nil) and consequently incurred no staff costs.

Emoluments for the Directors of the Company are paid for by Spire Healthcare Limited, a fellow subsidiary of Spire Healthcare Group plc. Spire Healthcare Limited has not recharged any amount to the Company (2018: £nil) on the basis that the amount attributable to the Company is negligible.

6 Auditor's remuneration

The audit fee for the Company of £4,000 (2018: £1,000) was borne by another Group company, and no recharge was made to the Company in respect of these costs in the current or comparative year.

7 Interest payable and similar charges

	2019 £'000	2018 (restated) £'000
Amounts owed to other Group undertakings	908	930
Interest received on lease of hospital property	(289)	(308)
Interest payable on lease of hospital property	172	181
	791	803

8 Taxation

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits for the year	277	244
Adjustment in respect of prior periods	10	-
Total current tax	287	244
Deferred tax		
Origination and reversal of temporary difference	58	62
Adjustment in respect of prior periods	(4)	-
Total deferred tax	54	62
Total tax charge	341	306

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Notes to the financial statements For the year ended 31 December 2019 (continued)

8 Taxation (continued)

Following the balance sheet date, the Government abolished the reduction in tax rate from 19% to 17% from 1 April 2020. Therefore, in 2020, it is expected that the deferred tax assets and liabilities will be revalued to 19%, with a net charge of £50k to the income statement.

Factors affecting the tax charge for the year

The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £'000	2018 (restated) £'000
Profit before tax	1,329	1,275
Corporation tax at standard rate	253	242
Effects of:		
Increase in current tax from adjustment for prior periods	10	-
Expenses not deductible for tax purposes	89	105
Deferred tax from unrecognised temporary difference from a prior period	(4)	(103)
Deferred tax expense (credit) relating to changes in tax rates or laws	(7)	62
Total tax charge	341	306

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

9 Property, plant and equipment

	Leasehold improvements £'000
Cost or valuation	
At 1 January 2019	1,646
At 31 December 2019	1,646
Depreciation	
At 1 January 2019	1,012
Charge for the year	73
At 31 December 2019	1,085
Net book value	
At 31 December 2019	561
At 31 December 2018	634

10 Investment Properties

	Freehold buildings £'000
Cost or valuation	
At 1 January 2019	38,497
At 31 December 2019	38,497
Depreciation	
At 1 January 2019	1,008
Charge for the year	504
At 31 December 2019	1,512
Net book value	
At 31 December 2019	36,985
At 31 December 2018	37,489

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Notes to the financial statements For the year ended 31 December 2019 (continued)

10 Investment Properties (continued)

Impairment testing

Valuations are the responsibility of the Directors. They are prepared and reviewed internally by senior management and property managers within the Group, after taking advice from external advisors about key market conditions, including yields. This includes discussions of the key assumptions used, as well as a review of the resulting valuations.

The fair value of investment properties is determined using the income capitalisation approach. Under this approach, forecast earnings are used to estimate the sustainable market rents applicable to the hospital property, which together with the estimated costs are discounted at market derived capitalisation rates to produce the Directors' opinion of the fair value of the property.

The capitalisation rate which, if applied to rental cash flows would produce the fair value, is described as the equivalent yield.

The Company considers its investment property falls within 'Level 3', as defined by IFRS 13. There has been no transfer of the property within the fair value hierarchy in the financial year.

The directors have identified a number of key assumptions relevant to impairment calculations, being the rental yield, which is impacted by a number of elements. In addition, the properties held are recent builds and continue to build on their value. The Directors have reviewed and sensitised the fair value and do not believe impairment is required.

The table below summarises the key unobservable inputs used in the valuation of the Company's wholly owned investment property at 31 December 2018 and in the Directors' opinion, there have been no material changes to these amounts during the year, and therefore reflects the position at 31 December 2019.

	Market value 2018 £'000	Estimated rental value 2018 £'000	Equivalent yield 2018 %
Hospital Property 1	52,018	2,500	4.81
Hospital Property 2	72,826	3,500	4.81
Hospital Property 3	41,615	2,000	4.81

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

11 Deferred tax asset

	2019 £'000	2018 (restated) £'000
Deferred tax asset	25	29

Deferred tax has arisen on the adoption of IFRS 16. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted, or substantively enacted, at the balance sheet date. Following the balance sheet date, the Government abolished the rate reduction to 17% from 19% from 1 April 2020. As a result, the deferred tax liability is expected to be revalued in 2020, see note 8 for the expected impact.

12 Lease receivable

	2019 £'000	2018 (restated) £'000
Lease receivable (from Group undertakings)	1,717	1,828

13 Trade and other receivables

	2019 £'000	2018 (restated) £'000
Lease receivable (from Group undertakings)	448	449
Prepayments and accrued income	197	222
	645	671

The accrued income relates to intercompany rent recognised over the remaining lease term, and therefore is split between amounts due within one year and amounts due in more than one year.

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Notes to the financial statements For the year ended 31 December 2019 (continued)

14 Payables

Payables: amounts falling due within one year

	2019 £'000	2018 (restated) £'000
Amounts owed to other Group undertakings	27,144	29,063
Lease liability	345	346
Corporation tax	380	93
	27,869	29,502

Amounts owed to other Group undertakings are unsecured and repayable on demand.

Payables: amounts falling due in more than one year

	2019 £'000	2018 (restated) £'000
Lease liability	1,638	1,761

15 Provisions for liabilities

	Deferred tax provision £'000
At 1 January 2018	406
Charged to the income statement	62
At 31 December 2018	468
Charged to the income statement	50
At 31 December 2019	518

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted, or substantively enacted, at the balance sheet date. Following the balance sheet date, the Government abolished the rate reduction to 17% from 19% from 1 April 2020. As a result, the deferred tax liability is expected to be revalued in 2020, see note 8 for the expected impact.

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

16 Share capital

Allotted, called up and fully paid shares

	2019 £	2018 £
2 Ordinary shares of £1 each	2	2

17 Lease arrangements - as lessor

The Company has entered into leases on each of its investment properties consisting of hospital properties (see note 10). The leases have a maximum term of 15 years up to December 2031.

The total future value of minimum lease receivable as at 31 December is as follows:

	2019 £'000	2018 £'000
Within one year	3,196	3,134
After one year but not more than five years	13,534	13,271
More than five years	24,381	27,984
	41,111	44,389

18 Contingent liabilities

On 23 July 2014, Spire Healthcare Group plc was refinanced, and it entered into a bank loan facility with a syndicate of banks, comprising of a five-year £425.0 million term loan and a five-year £100.0 million revolving facility, which has been guaranteed by the Company and other material subsidiaries of the Group. The loan is non-amortising and carries interest at a margin of 2.50% over LIBOR (2018: 2.25% over LIBOR). In July 2018, the Group extended the maturity of its bank loan facility for a further three years.

At the balance sheet date, the loan amount outstanding was £425,000,000 (2018: £425,000,000), and the revolving facility remains undrawn (2018: Undrawn).

As disclosed in note 21, the Group Covenant testing has been waived by the lender for the two 2020 testing periods, being 30 June 2020 and 31 December 2020, and adjusted for the two testing periods in 2021, following the COVID-19 outbreak.

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

19 IFRS 16 – Transitional impact

Income Statement

	2018 as reported £'000	IFRS 16 adjustment £'000	2018 (Restated) £'000
Rental income	3,120	(440)	2,680
Depreciation	(577)		(577)
Administrative expenses	(362)	337	(25)
Operating profit	2,181	(103)	2,078
Interest payable and similar charges	(930)	127	(803)
Net finance cost	(930)	127	(803)
Profit on ordinary activities before taxation	1,251	24	1,275
Tax on profit on ordinary activities	(306)	-	(306)
Profit for the financial year	945	24	969

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

19 IFRS 16 – Transitional impact (continued)

Statement of Financial Position

	2017 (as reported) £'000	IFRS 16 adjustment £'000	2017 (restated) £'000	2018 (as reported) £'000	IFRS 16 adjustment £'000	2018 (restated) £'000
Non-current assets						
Property, plant and equipment	707	-	707	634		634
Investment properties	37,993	-	37,993	37,489		37,489
Deferred tax asset	-	29	29	-	29	29
Lease receivable	-	1,906	1,906	-	1,828	1,828
	38,700	1,935	40,635	38,123	1,857	39,980
Current assets						
Trade and other receivables	247	440	687	222	448	670
	247	440	687	222	448	670
Payables: amounts falling due within one year	(30,765)	(337)	(31,102)	(29,159)	(345)	(29,501)
Net current liabilities	(30,518)	103	(30,415)	(28,934)	103	(28,831)
Total assets less current liabilities	8,182	2,038	10,220	9,189	1,960	11,149
Lease liability	-	(1,850)	(1,850)	-	(1,761)	(1,761)
Provisions for liabilities	(406)	-	(406)	(468)	-	(468)
Net assets	7,776	188	7,964	8,721	199	8,920
Capital and reserves						
Share capital	-	-	-	-	-	-
Retained earnings	7,776	188	7,964	8,721	199	8,920
Total Equity	7,776	188	7,964	8,721	199	8,920

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

20 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is Spire Healthcare Limited, a company registered in England and Wales.

The Company's ultimate parent undertaking is Spire Healthcare Group plc, a company registered in England and Wales. Spire Healthcare Group plc heads the smallest and largest group which prepares consolidated financial statements in which the results of the Company are included. The financial statements of Spire Healthcare Group plc are available at www.spirehealthcare.com or from The Company Secretary, 3 Dorset Rise, London EC4Y 8EN, which is also the registered office of the ultimate parent.

21 Post balance sheet events

Following the balance sheet date, a global pandemic has arisen which has effected the global economic environment, and created significant uncertainty about future recovery following lockdown procedures in both the UK, and other countries. The scale and duration of these developments remain uncertain but could impact on earnings, cash flow and financial condition. The Group actively assesses the situation across the country to ensure business continuity plans are put in place to sustain operations and supply chains with a focus on safe working environments and safe conditions for patients, consultants and employees.

In March 2020, the Group signed an agreement to assist the NHS in its response to the pandemic for a period of 14 weeks, with the option to extend. In addition, lenders have agreed to waive the two covenant testing periods in 2020, being 30 June 2020 and 31 December 2020. The Directors have reviewed the viability of the Company, and the wider Spire Healthcare Group following the pandemic and the agreement with the NHS and confirmed, whilst there is uncertainty, the Company remains a going concern.

On 13 August 2020, the Group announced a Heads of Terms to vary the NHS England contract. This allows the Group to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists, whilst increasing private activity as its 35 English Hospitals. This contract is expected to remain in place until at least the end of October 2020, but will have a definite expiry date at the end of December 2020 at the latest. Further information can be found in the RNS released by Spire Healthcare Group plc on the 13 August 2020.

Following the announcement to support the NHS for a longer period than was initially envisaged, the Group has obtained agreement from its lenders that covenant testing in June 2021 will be limited to certain liquidity measures (such that cash plus cash equivalents, i.e. including headroom under undrawn committed facilities should not fall below £50m) whilst net debt to EBITDA and interest cover ratio covenant tests will be waived. In addition to this, the maturity date of the Senior Loan Facility has also been extended by one year to July 2023.